



# ECONOMIC COOPERATION BETWEEN SERBIA AND KOSOVO IN THE CONTEXT OF THE REGIONAL MARKET



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**Authors**

Nikola Burazer, Centre for Contemporary Politics (CSP)  
Marko Savković, Belgrade Fund for Political Excellence (BFPE)

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# **Economic cooperation between Serbia and Kosovo in the context of the regional market**

*Nikola Burazer, Centre for Contemporary Politics (CSP)*

*Marko Savković, Belgrade Fund for Political Excellence (BFPE)*

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## **ABBREVIATIONS**

CEFTA	Central European Free Trade Agreement
CIF	Chamber Investment Forum
CRM	Common Regional Market
DFC	International Development Finance Corporation
EU	European Union
MAP REA	Multi-annual Action Plan on a Regional Economic Area
KCC	Kosovo Chamber of Commerce
PKS	Serbian Chamber of Commerce
RCC	Regional Cooperation Council
REA	Regional Economic Area
USA	United States of America
SAA	Stabilisation and Association Agreement

## **INTRODUCTION**

Regional cooperation between countries in the Western Balkans is important for the European integration process for several reasons. On the one hand, good neighbourly relations and cooperation with neighbouring countries are an obligation for all countries in the process of accession to the European Union (EU). Because they have in mind the turbulent past of the Western Balkans region, Brussels especially insists on them. Second, harmonisation of regulations and the creation of regional institutions contribute to easier integration of the entire region into the EU, as they represent a way to facilitate the adoption of the Union's standards and "prepare" for membership in a far larger political and economic organisation. Third, but not least, regional cooperation can contribute to the economic development of the region, which can contribute to faster European integration, but also help achieve other goals of the countries and bring significant benefits to their citizens.

Economic integration is one of the most important forms of regional cooperation in the Western Balkans. It is certainly motivated by political reasons, but also by the need to boost economic development in the region and improve the prospects of reaching the EU's development level. The creation of a common regional market of almost 20 million citizens and the adoption of common standards harmonised with the EU can provide greater opportunities for economic growth and inclusion in European and global economic flows.

When it comes to relations between Belgrade and Pristina, one of the aspects which has advanced the most is the economic one. It is often passed over - sometimes unjustly, and sometimes consciously, to leave room for businesses to work. Economic cooperation is important; it will not, of course, resolve open political issues (which is the job of political leaders); but some new horizons (communications) can be opened, and tensions reduced.

At the same time, as stated in the study "Improvement of cooperation between the business communities of Serbia and Kosovo", "the economic systems of Serbia and Kosovo were developing as one subsystem within the unique economic system of the former Yugoslavia." Therefore (...) there are many similarities and interdependencies of these two economic systems", which "facilitates business and economic cooperation". Our economies also have in common "low productivity and competitiveness, a mismatch between labour skills and market demands, a narrow export base, a high rate of informality, insufficiently built and developed infrastructure."<sup>1</sup>

Conversations about economic issues became important at a time when the winner of the elections in Kosovo, Albin Kurti, pointed out that (political) dialogue is not among the priorities and that this is supported by the majority of citizens. However, the technical one remains, and within it, economic cooperation, and especially cooperation between chambers

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<sup>1</sup> Nenad Đurđević i Dušan Janjić (ur.), 2020, „Unapređenje poslovne saradnje Srbije i Kosova: izveštaj i preporuke“, Beograd: Forum za etničke odnose, p. 23



of commerce have an important place from the beginning. At the same time, the issue of perspectives of cooperation in the context of regional economic integrations is opened, whether it is the “Mini-Schengen” process or the establishment of the Common Regional Market (CRM).

## **FRAMEWORKS FOR REGIONAL ECONOMIC COOPERATION AND INTEGRATION IN THE WESTERN BALKANS**

The necessity of regional cooperation can easily explain the existence of a large number of initiatives for regional economic cooperation of the Western Balkan countries, some of which should be especially mentioned. One of the most important formats of economic cooperation is the Central European Free Trade Agreement (CEFTA), which the Western Balkans joined in 2006 and 2007.<sup>2</sup> CEFTA's goals include consolidating trade liberalisation in the region in a single agreement, eliminating barriers and facilitating the movement of goods and services, as well as improving the conditions further to promote investment.<sup>3</sup> The Regional Cooperation Council (RCC) was established in 2008 by the countries of the Western Balkans, Croatia, Greece, Bulgaria, Romania and Turkey as the first international organisation led by the countries of Southeast Europe themselves. RCC aims to foster regional cooperation, implement regional programs aimed at economic and social development, and remove obstacles to increased mobility, connections and competitiveness in Southeast Europe.<sup>4</sup> As we will see, RCC also has an important role in implementing other initiatives relevant to the region, including various programs within the Berlin Process.

The Berlin Process, launched in 2014 at the proposal of German Chancellor Angela Merkel, was an initiative of individual EU member states to boost the European integration process of the Western Balkans at a time when it was clear that their EU membership was at least a few years away. The main goal of the Berlin Process was infrastructural connection of the countries of the Western Balkans, both with the EU and with each other, but over the years, this initiative has received new contents. Already in 2015, the issue of bilateral disputes became a part of the Berlin Process, and the Berlin Process Summit in Trieste in 2017 had a strong component of economic integration. The Chamber Investment Forum of the Western Balkans (WB6)<sup>5</sup> was established then, the establishment of the Transport Community was agreed upon, as well as, most importantly, the creation of the Regional Economic Area (REA).<sup>6</sup> The Multi-annual Action Plan (MAP REA) was also adopted, which would create a *single economic space* in the Western Balkans in which the “four freedoms” on which the EU is based would be implemented: (freedoms of movement) of goods, capital, services and labour. The Action Plan envisages four areas of economic integration: (integration of) trade, creation of a dynamic space for investment, facilitation of regional mobility and creation of a digital integration agenda (“digital agenda”). The Action Plan is based on the obligations arising from CEFTA and the Stabilization and Association Agreement (SAA) of individual countries of the Western Balkans, and it envisages that the obligations will be fulfilled

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<sup>2</sup> Apart from the Western Balkans countries, Moldavia is also a member of CEFTA, whereas Romania, Bulgaria and Croatia left it after they joined the European Union.

<sup>3</sup> Zakon o potvrđivanju sporazuma o izmeni i pristupanju sporazumu o slobodnoj trgovini u Centralnoj Evropi – CEFTA 2006, available at <https://www.carina.rs/cyr/Medjunarodni%20sporazumi/SporazumCEFTA.pdf>

<sup>4</sup> “About us”, Regional Cooperation Council, available at <https://www.rcc.int/pages/2/about-us> (accessed on 17 March 2021)

<sup>5</sup> See more at <https://www.wb6cif.eu/> (accessed on 18 March 2021)

<sup>6</sup> See more at [https://ec.europa.eu/commission/presscorner/detail/hr/MEMO\\_17\\_1967](https://ec.europa.eu/commission/presscorner/detail/hr/MEMO_17_1967) (accessed on 18 March 2021)

between 2017 and 2023. RCC was given the task of monitoring and reporting on the implementation of the Action Plan.<sup>7</sup>

Of all the initiatives for regional cooperation in the Western Balkans, the most media attention was caused by the so-called “Mini-Schengen”, which was announced in October 2019 in Novi Sad by the President of Serbia Aleksandar Vučić, the Prime Minister of Albania Edi Rama and the Prime Minister of Northern Macedonia Zoran Zaev. This initiative, as well as the previously mentioned Action Plan for the Regional Economic Area, envisages ensuring the “four freedoms” of the EU in the Western Balkans: the movement of goods, capital, services, and labour. However, unlike the mentioned initiative within the Berlin Process, the “Mini-Schengen” is originally a “local” project, announced by the countries of the Western Balkans without any participation of the European Union (and at that time with the support of the Trump’s administration). With an attractive and understandable name that is associated with the well-known “Schengen Area”, but without a clearly elaborated concept and action plan, Mini-Schengen quickly overshadowed all other forms of regional economic integration.

Another big difference between Mini-Schengen and other initiatives is that it was initiated by only three countries in the Western Balkans: Serbia, Albania, and Northern Macedonia. Although it was already announced during the signing of the declaration in Novi Sad that the invitation to join this initiative was open to everyone in the Western Balkans, the inclusion of new members was not easy. After the initial positive signals and the participation of the Chairman of the Council of Ministers of BiH Denis Zvizdić and the Minister of Economy of Montenegro Dragica Sekulić<sup>8</sup> at the meeting in Ohrid in November 2019, and then the President of Montenegro Milo Đukanović in Tirana in December, Montenegro and Bosnia and Herzegovina remained outside of this initiative.

The issue of including Kosovo in the Mini-Schengen, however, has been controversial from the beginning. After the first meeting in Belgrade in October 2019, the then President of Kosovo Hashim Thaçi wrote that Serbia had deliberately neglected Kosovo in this regional initiative, and that Kosovo was only interested in EU and NATO membership, but not in “any regional initiative that should replace that.”<sup>9</sup> However, Albania has strongly advocated for Kosovo’s participation in the Mini-Schengen, and Foreign Minister Gent Cakaj has even announced that Albania will abandon the initiative if Kosovo is denied an invitation.<sup>10</sup>

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<sup>7</sup> „Consolidated Multi-annual Action Plan for a Regional Economic Area in the Western Balkans Six“, Jul 2017, available at <https://www.rcc.int/docs/383/multi-annual-action-plan-for-a-regional-economic-area-in-the-western-balkans-six>

<sup>8</sup> The fact that Montenegro sent a minister, and not the Prime Minister or the President, to the first meeting, speaks of the fact that this country entered the whole idea with caution.

<sup>9</sup> Emina Muminović, 22. novembar 2019, „Mini-Schengen: Hand in hand with the EU integration process, or its replacement?“, European Western Balkans, <https://europeanwesternbalkans.com/2019/11/22/mini-schengen-hand-in-hand-with-the-eu-integration-process-or-its-replacement/> (accessed on 18 March 2021)

<sup>10</sup> Albania will withdraw from “mini-Schengen” if Kosovo is not included, European Western Balkans, 23. oktobar 2019, <https://europeanwesternbalkans.com/2019/10/23/albania-will-withdraw-from-mini-schengen-if-kosovo-is-not-included/> (accessed on 18 March 2021)

Interestingly, this soon led to a dispute between Tirana and Priština. While Albanian Prime Minister Edi Rama insisted that it was in Kosovo's interest to be part of the "Mini-Schengen" initiative, warning that Kosovo did not need "self-isolation", the authorities in Priština had a different position. The new Prime Minister of Kosovo, Albin Kurti, insisted that regional cooperation should exist within the Berlin Process (and thus, further development of the REA, i.e., the common market), while Prime Minister Rama remained one of the strongest advocates of this initiative.

Western partners welcomed the work on the "Mini-Schengen", but reactions in the region were occasionally very strong, including accusations that this process sought to create a "Greater Serbia" or a "Greater Albania". It is interesting, however, that no one asked these questions when REA was agreed within the Berlin Process, which tells us that "Mini-Schengen" became part of daily politics in a way that the Berlin Process and other regional initiatives were not. We believe that the reason is that this is a "leadership process" whose owners are the actors in the region, primarily President Vučić and Prime Minister Rama. This is also an important lesson on trust in the region: if the initiative comes from the EU, an agreement is (relatively) easy to reach, but if something is proposed by the actors ("leaders") in the region, the issue is immediately politicized. On the other hand, it is reasonable to assume that a certain policy, decision, or measure is easier to "push through the system" if the highest representatives of the political power are behind it. The risk is that the cooperation then depends on the development of their (even personal, and not only state) relations.

## **THE ECONOMY AND NORMALISATION OF RELATIONS BETWEEN SERBIA AND KOSOVO**

“Placed down” to the level of daily politics, Kosovo’s participation in the “Mini-Schengen” is thus linked to the unresolved dispute between Belgrade and Priština regarding the status of Kosovo and all other problems that arose from it. The dialogue facilitated by the EU since March 2011 was suspended in November 2018 when the Priština authorities introduced 100% customs duties on goods from Serbia and Bosnia and Herzegovina (BIH), and while they were in force, the dialogue between Belgrade and Priština could not be continued.

The issues of economic cooperation and economic integration were not in the focus of the dialogue between Belgrade and Priština, but several agreements had an important economic dimension, from the one on integrated border management (administrative line), through the agreement on customs stamps, to the agreement on regional cooperation and representation. Economic cooperation, however, was discussed in other formats, including, primarily, the parallel<sup>11</sup> dialogue between Serbia and Kosovo facilitated by the United States of America (USA), and during the mandate of Richard Grenell as President Trump’s special envoy.

The introduction of 100% customs duties by the government in Priština has certainly damaged both the normalisation process and economic cooperation. The final price of the introduction of the tax was paid by both exporters from Serbia and consumers in Kosovo, by raising the price of products by 5.4% (a study by the GAP institute).

In a period of non-existence of dialogue and uncertainty about its continuation, Trump’s administration has insisted on economic issues as key to achieving normalisation of relations between the two sides. The newly appointed special envoy for peace negotiations between Serbia and Kosovo, Richard Grenell, the former US ambassador to Berlin, soon took the initiative to return the two sides to the negotiating table, focusing on economic topics.

With Grenell’s mediation, in January 2020, the representatives of Serbia and Kosovo signed a letter of intent on the establishment of the Belgrade-Priština airline route<sup>12</sup> in Berlin, and soon after, in February 2020, at the Munich Security Conference, they signed a letter of intent to establish railway and road connection.<sup>13</sup> Political instability in Kosovo and the coronavirus pandemic have delayed further steps in this regard. After the fall of Kurti’s government, representatives of the two sides were invited to Washington for a meeting in the White House.

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<sup>11</sup> The wording “parallel process” is not too strict, if we take in consideration numerous views of both the officials of the leading EU members and the envoy Lajcak himself - after the change of administration in America. Despite individual efforts, there was no real coordination on the Kosovo issue between USA and the EU in 2019 and 2020, and everyone followed their own agenda.

<sup>12</sup> Potpisan sporazum sa Lufthansom o obnovi linije Beograd-Priština, N1, januar 2020, <https://rs.n1info.com/biznis/a562180-potpisan-sporazum-sa-lufthansom-o-obnovi-linije-beograd-pristina/> (accessed on 18 March 2021)

<sup>13</sup> Potpisane izjave o namerama za železničku vezu i autoput Beograd-Priština, N1, februar 2020, <https://rs.n1info.com/biznis/a569276-potpisane-izjave-o-namerama-za-zeleznicku-vezu-i-auto-put-beograd-pristina/> (accessed on 18 March 2021)

Although this meeting was postponed due to the resignation of President Thaçi, President Vučić and Prime Minister Hoti met with Trump in the “Oval Room” on September 4.

The Washington Agreement signed on this occasion was seen primarily as part of President Trump’s election campaign, it did not touch on the most sensitive political issues and contained certain elements that apparently had nothing to do with the Belgrade-Priština dispute. However, it also contained several provisions of importance for the economic relations between Serbia and Kosovo, and in that respect, it represented the “crown” of Grenell’s activities as a special presidential envoy.

The agreement between the two sides expresses readiness to continue the process of economic normalisation, primarily through the implementation of the agreement on air, road and rail connections agreed in early 2020, but also to cooperate with the US International Development Finance Corporation (DFC). The DFC had an important role to play in implementing the various infrastructure projects necessary to establish these links, as well as in supporting SMEs. The agreement also envisages the establishment of a DFC office in Belgrade, mutual recognition of diplomas, as well as cooperation with American institutions for the purpose of a feasibility study on the use of the Lake Gazivode. Finally, the Washington Agreement envisages the accession of Kosovo (and Serbia) to the “Mini-Schengen” initiative.<sup>14</sup>

Shortly after the agreement was signed, the US DFC opened an office in Belgrade, and the two chambers of commerce signed a joint statement stressing support for improving economic relations, welcoming the DFC’s presence in the region, and announcing the formation of a joint economic cooperation team to support economic normalisation. The statement also supported the “Mini-Schengen” initiative as a step towards stability and prosperity in the region.<sup>15</sup>

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<sup>14</sup> Tekst sporazumâ nazvanih "Ekonomska normalizacija", Vreme, septembar 2020, <https://www.vreme.com/cms/view.php?id=1820080>

<sup>15</sup> Šta predviđa Zajednička izjava PKS i kosovske komore, Politika, septembar 2020, <http://www.politika.rs/sr/clanak/463014/Sta-predvidja-Zajednicka-izjava-PKS-i-kosovske-komore>

## **TRADE BETWEEN SERBIA AND KOSOVO IN NUMBERS**

The public focus on sensitive political issues sometimes leads to overlooking the fact that there is significant trade between Serbia and Kosovo, which is of great importance for both economies. Thanks to the membership of Serbia and Kosovo in CEFTA, but also cooperation through various regional and bilateral mechanisms, mutual trade has been on an upward path until the introduction of 100% customs duties by the Kosovo government in November 2018.

Serbia's exports to Kosovo increased every year from 2012 to 2017, when they amounted to EUR 439.5 million, i.e., a total of 3% of Serbia's exports and 15% of Kosovo's imports for that year. The introduction of customs in November affected the results for 2018, when exports amounted to EUR 412.2 million, and then in 2019 it amounted to only EUR 84.7 million. After the customs duties were abolished, Serbia's exports again drastically increased in 2020 to EUR 251.7 million, or 1% of total Serbian exports, which is again significantly less than in the years before the introduction of customs duties. Given the continuous growth until 2018, as well as the growth of total exports of Serbia in recent years, it is reasonable to assume that these results would have been twice as good if customs had not heavily affected the trade.<sup>16</sup>

Serbia has a significant trade surplus with Kosovo, i.e., in recent years it has exported ten to twenty times more than it imports from Kosovo. It is interesting that during the entire period from 2017 to 2020, regardless of the introduction of customs duties, Kosovo's exports to Serbia remained at a stable level and in 2020 amounted to EUR 25.4 million, or almost exactly ten times less than Serbia's exports to Kosovo. Although at first glance it seems that Kosovo's exports to Serbia are not of great importance because of this, it is important to note that Kosovo's exports to Serbia accounted for as much as 7% of Kosovo's total exports in 2019.<sup>17</sup>

As for the type of goods that are traded, Serbia's exports to Kosovo are diverse. According to the 2017 data, the most represented exported goods are food and animals (25%), industrial goods (22%), mineral fuels and lubricants (13%) chemical products (13%), while beverages and tobacco, machinery and means of transport are underrepresented. On the other hand, Kosovo exports to Serbia mostly mineral fuels and lubricants (as much as 62%), as well as industrial goods (13%), while all other types of products are much less represented.<sup>18</sup>

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<sup>16</sup> Statistics on the trade between CEFTA economies can be found at <https://statistics.cefta.int/goods>

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

## **COOPERATION BETWEEN CHAMBERS OF COMMERCE OF SERBIA AND KOSOVO**

In strong contrast to daily politics, cooperation between the chambers of commerce of Serbia and Kosovo has yielded significant results over the past few years. In 2013, an agreement on cooperation between the Serbian Chamber of Commerce (PKS) and the Kosovo Chamber of Commerce (KCC) was signed in Brussels, and in 2015, KCC became a member of the European Chamber of Commerce with the approval of the Serbian side.<sup>19</sup> The two chambers worked together to remove obstacles to free trade, connect businesses from Serbia and Kosovo to find new partners and markets, and launch regional initiatives such as the mentioned Joint Chamber of Commerce of the Western Balkans, established under the Berlin Process. Before the introduction of customs duties in 2018, 150 businesses from Serbia participated in the trade fair in Priština, while Kosovo businesses participated in similar events in Serbia.<sup>20</sup>

Especially important for understanding the cooperation and trade between Serbia and Kosovo is the PKS research, which was led by the Forum for Ethnic Relations in 2018 and 2019, as part of the project of support for chamber cooperation supported by the European Union (EU). The Forum's researchers spoke with company representatives directly, as well as at meetings held in regional chambers of commerce. These were companies of different sizes - 70 of them (of which 40 in Serbia, 30 in Kosovo; and of those 30, five located in Serbian areas, and not only in the north). The authors of the research made sure to include the companies from Sandžak, Bujanovac and Preševo. It was common for all of them to operate on the markets of Serbia and Kosovo. Special emphasis was given to freight forwarders, who, due to the nature of their activities, are among the most active business entities on both sides of the administrative line.

The companies, of course, are driven by interest, the possibility of earning money in the neighbouring and close market, which they have learned well for the past 20 years (and some even more; some are building success on brand recognition since the time of Yugoslavia). Serbia's interest could not be clearer when taxes were introduced in November 2018; Kosovo represents a market of half a billion euros a year.

What do our companies sell in Kosovo? Those are still mostly food products. When the taxes were introduced, producers from the surrounding regions (primarily Croatia, but also Slovenia, and Northern Macedonia) tried to compensate for the presence of Serbian producers. We all remember that at that time, the implementation of the law started that obliged retailers in Kosovo to display the flags (of the countries) of origin of products; so replacement products, often of lower quality, were quickly sought.

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<sup>19</sup> „Srbija i Kosovo: Privreda kao primer“, Deutsche Welle, jul 2020, <https://www.dw.com/sr/srbija-i-kosovo-privreda-kao-primer/a-54039863> (accessed on 10 March 2021)

<sup>20</sup> „Čadež: Ekonomska saradnja Srbije i Kosova u usponu“, Beta, april 2018, <https://beta.rs/podcast/dijalog-politika/88505-cadez-ekonomska-saradnja-srbije-i-kosova-u-usponu> (accessed on 10 March 2021)



## **CHARACTERISTICS OF TRADE BETWEEN SERBIA AND KOSOVO: CHALLENGES AND PROBLEMS**

After the fees were abolished, in just a few months, the trade returned to 70% of what it had been before; the companies kept in touch and regained the market relatively quickly and to a large extent. In the meantime, the desire has developed to cooperate not only through trade, and this “positive pressure” is somewhat more pronounced among companies registered in Serbia.

Problems and obstacles are numerous. Let us show the following examples. Since the entry into force of the energy agreement, Serbia and Kosovo can no longer trade in electricity, because they do not recognize each other’s licenses. Therefore, the power network of Kosovo can no longer be transit if, say, trade is conducted with Albania.

Then there are several problems that make life difficult for carriers: from the fact that Kosovo is not in the ADR system (carriage of dangerous goods), and you must have a licensed driver and vehicle in order for such goods to be transported; then, the goods of animal and plant origin from Albania intended for Serbian market cannot transit through Kosovo; the fact that Bosnia and Herzegovina does not recognize Kosovo, which makes any trade between them very difficult; to (non) recognition of license plates. In all this, according to our interlocutor, “an ordinary business cannot cope” and that is why the role of chambers of commerce (of Serbia and Kosovo) is of great importance - they are the ones looking for solutions.

The “technical dialogue” between chambers of commerce operates on an equal basis, and it is the economy that “dictates” topics - from defining the forms with the text that is status-neutral, through standardization, to arbitration as a way of resolving disputes. In their work, the chambers include experts from various institutions. The EU has long recognized this and is helping their work; some of the key issues, such as the mentioned phytosanitary certificate, have been harmonized in Brussels.

An interesting and insufficiently researched issue concerns the possibility of investing from Serbia to Kosovo, or from Kosovo to Serbia. Even if we leave politics aside (which, in the end, is impossible), the fundamental problem is a weak investment climate in Kosovo. The privatization carried out there “is not one of the successful practices” because “it did not contribute to sustainable economic development”, and “numerous unresolved issues on property rights” remained.<sup>21</sup> Partly due to the open status issue, Kosovo is not included in international value chains, which also discourages potential investors.

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<sup>21</sup> Đurđević i Janjić (ur.), 2020, p. 19

At the moment, it seems more realistic for a larger company from Serbia - for example, in the same food industry - to try to open a production plant in Kosovo. Raspberries that are further exported are also procured in Kosovo; Štrpce is an example of a community where this business is very developed. The “Soul of Metohija” program, launched several years ago, can also serve as one of the examples of importing. The opportunity is also in the expected change in consumer habits after the pandemic, where they will look to replace products coming from distant destinations with those from the region. As these are business entities registered in Kosovo, it becomes part of the “value chain” of regional trade and exchange.

Intensifying cooperation in the future could contribute to the reduction of unemployment, which is (in the Western Balkans) record high and is around 30% of the working age population. Kosovo is in deficit when it trades with Serbia, but that is the reality in economic relations with practically everyone, and a reflection of the structure (weakness) of the local economy.<sup>22</sup>

On the other hand, one of the main problems Kosovo’s economy is facing is capacity: companies there cannot produce enough to appear “on the shelves” here. Another problem is that our market is simply not open for some of their leading products (pressure from local producers). Furthermore, while at least in principle it is not a problem for a company from Serbia to appear on the market in Kosovo and participate in a tender, their company cannot participate here, because Serbia does not recognize the documents they submit. And businesses react to any relief of the government, where we will recognize each other’s documents, and not restrict access.

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<sup>22</sup> In December 2019, foreign trade deficit amounted to 12.7% or EUR 308.3 million, and in the same period last year to EUR 273.5 million. Cited in: Đurđević i Janjić (ur.) 2020, p. 18

## **RELATION BETWEEN MINI-SCHENGEN AND OTHER TYPES OF REGIONAL ECONOMIC INTEGRATION**

An important question that we did not answer concerns the relation between “Mini-Schengen” and other forms of regional economic integration, primarily the Berlin Process and the REA, the creation of which is envisaged within it.

The “Mini-Schengen” initiative has not had too many concrete results in a year and a half since the first meeting in October 2019. Albania and North Macedonia reached an agreement on the recognition of phytosanitary certificates in April 2020, at the end of 2020 Serbia and Albania made it possible to travel between the two countries with ID cards, and all three countries agreed to cooperate in fighting the coronavirus pandemic, including free travel without PCR tests, and covering the patients’ treatment costs. Still, the “Mini-Schengen”, like a wake-up call, unlocked cooperation within CEFTA, which was blocked due to the introduced taxes; it then accelerated regional processes in terms of integrating the region into a common regional market (through a summit in Sofia). REA did not show more visible results as well; the phasing out of roaming among countries in the region is perhaps the most tangible success.<sup>23</sup>

Cooperation between the economies of Serbia and Kosovo was supposed to be facilitated by (ongoing) processes of regional economic integration. It is no longer certain that this will be the case, since Kurti and his associates are against the “Mini-Schengen”; and the leaving Hoti administration warned what Belgrade should do before Priština fully stands behind the idea (on the other hand, it seems that Montenegro and BiH are now more ready to join than last year). Finally, it is not clear what will be the measure of interest and support of the United States now. Recently, discussions about the further role of the newly opened office of the DFC in Belgrade - which seemed to be the most concrete achievement of the “Washington Agreement” (in addition to the agreement on investment incentives) - attracted considerable attention. As a reminder, DFC was supposed to support some of the strategically important projects - highway, railway (intended primarily for freight transport), and guarantee funds for businesses and farmers - by attracting private, and not only state, sources of financing.

This leaves the second initiative, a common market of the region, which is implemented with the active role of the Regional Cooperation Council and the EU itself. It is not a competition to “Mini-Schengen”, but, for now, it seems acceptable to everyone. It was agreed at the Berlin Process Summit held in Sofia in November 2020 and represents an improvement on the REA concept. On that occasion, an action plan for the period 2021-2024 was adopted, which would ensure “four freedoms” in the Western Balkans. The Regional Cooperation Council (RCC),

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<sup>23</sup> Mini-Schengen, Regional Economic Area and Common Regional Market: What is what?, European Western Balkans, december 2020, <https://europeanwesternbalkans.com/2020/12/15/mini-schengen-regional-economic-area-and-common-regional-market-what-is-what/> (accessed on 10 March 2021)

however, also makes clear the connection between the new initiative and Mini-Schengen, arguing that “Mini-Schengen has brought political dynamics, focused mainly on key areas of the REA, and suggested a couple of practical interventions that are now fully integrated into CRM”.<sup>24</sup> The topics of the “Mini-Schengen” – “four freedoms” “released” through regulations and standards that have been harmonized - are also present here in the form of a continuation of the action plan, which was adopted at the summit in Sofia in November 2020. These are issue related to everyday life, concerning labour market, faster border crossing, paperless procedures. There is a lack of workers, of more offers in tenders, and predictability that businesses need so much. That is why it is necessary to “communicate” both processes completely.

Due to all this, it is difficult to make a clear distinction between “Mini-Schengen” and other initiatives for regional economic integration within the Berlin Process. Instead, it is better to focus on the very goals proclaimed by the “Mini-Schengen”: achieving freedom of movement of goods, capital, services, and labour. In what format it will be realised, it may be less important.

One way to design further directions of regional connection is again sought through the cooperation of chambers and the input of the profit sector: in November 2020, the Business Council of the Western Balkans Chamber Investment Forum (CIF WB6) was formed as an advisory body of owners or top managers of 16 leading business systems operating in the Western Balkans. The tasks of the Council are to initiate and propose various solutions to governments in the region in order to establish a more competitive and stimulating regional business environment; to monitor implementation and assess progress in establishing a common regional market; and to promote direct dialogue between the Western Balkans business community and EU decision-makers, which would enable faster integration into the EU single market, through an “inclusive approach” to enlargement.

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<sup>24</sup> Ibid.

## **CONCLUSION**

Regional cooperation is an obligation for all countries in the process of EU accession in the Western Balkans, but also a great opportunity for economic development of the region. Regional economic integration as one of the most important forms of regional cooperation can bring concrete benefits for the entire region, but also facilitate the process of accession to the European Union. The fact that initiatives for regional economic integration come from both the European Union and the countries in the Western Balkans speaks of the existence of political will and relatively favourable conditions for the realization of initiatives such as Mini-Schengen or the Common Regional Market focused at “four freedoms” of the European Union. Therefore, this opportunity should be used and make a stronger commitment to regional economic integration in the coming years.

The dispute between Belgrade and Priština over the status is a significant challenge for the European perspective of Serbia and Kosovo, but also for the entire region. However, economic relations between Serbia and Kosovo and the potential for their further improvement speak of the importance regional economic integration can have for the development of both economies. Bilateral economic cooperation, primarily through the cooperation of chambers of commerce, has already shown certain results and should be continued regardless of significant political obstacles. On the other hand, regional economic integration at the level of the Western Balkans would further enhance bilateral economic relations between Serbia and Kosovo, bypassing some of the obstacles imposed by the disputed status issue.

We should not forget that cooperation in economic issues and the removal of obstacles to mutual trade can also have positive effects on political dialogue. The existing mistrust between Belgrade and Priština, but also the significant ethnic distance between Serbs and Albanians, certainly have negative consequences on the possibility of achieving political solutions. On the other hand, the development of trade and the removal of obstacles to free movement of people, goods, capital, and services could make a significant contribution to the normalization of relations, but also make the lives of citizens of Serbia and Kosovo much easier, as they are certainly heavily affected by the existing political disputes.

## **RECOMMENDATIONS**

1. Commit to the development of regional economic integration in the Western Balkans as a way to accelerate economic development and improve the so-called “European perspective” of the region.
2. Institutionalise the “Mini Schengen” by introducing its achievements “horizontally” through three of the four mentioned pillars or dimensions - investments, mobility in the region and the digital agenda (Prof. Gordana Đurović); and thus “reconcile” with the common regional market (CRM).
3. At the same time, develop a mechanism to measure progress in the implementation of the agreed points.
4. Separate the issues of economic relations from the dispute between Belgrade and Priština over the status. Economic cooperation is not only in the interest of both parties but can make a long-term contribution to the normalization of relations.
5. Fully implement technical agreements reached between Belgrade and Priština, which relate to - crossing points; documents; license plates.
6. Continue the technical dialogue between the chambers and experts with the facilitation of Brussels and improve cooperation between the two institutions.
7. In cooperation with the EU and the Quint countries, see whether the scenario of introducing the so-called reciprocity that would certainly harm economic exchange could be avoided by agreement.
8. Fully implement the decisions and operational measures adopted within CEFTA.
9. Remove obstacles to businesses participating in tenders conducted by the other side.
10. As a gesture of good will, or simply a continuation of the started cooperation, continue with guest appearances and exhibitions of companies at fairs organised by the other side.

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NATIONAL CONVENTION ON THE  
EUROPEAN UNION  
KNEZA MILOSA 4  
11000 BELGRADE  
[WWW.EUKONVENT.ORG](http://WWW.EUKONVENT.ORG)  
[OFFICE@EUKONVENT.ORG](mailto:OFFICE@EUKONVENT.ORG)



INSTITUTE FOR TERRITORIAL  
ECONOMIC DEVELOPMENT (INTER)  
VLAJKOVICEVA 29  
11000 BELGRADE  
+381 (0)11 3246 766  
[WWW.REGIONALNIRAZVOJ.ORG](http://WWW.REGIONALNIRAZVOJ.ORG)  
[OFFICE@REGIONALNIRAZVOJ.ORG](mailto:OFFICE@REGIONALNIRAZVOJ.ORG)